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Caribbean Economies: Squeezed by Structural Changes in World Bauxite Industry

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A Research Paper

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*GI 86-10018
March 1986*

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A Research Paper

This paper was prepared by [] Office
of Global Issues. Comments and queries are welcome
and may be directed to the Chief, Economics
Division, OGI []

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Caribbean Economies: Squeezed by Structural Changes in World Bauxite Industry

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Key Judgments

*Information available
as of January 1986
was used in this report.*

Structural changes in the world bauxite market over the past decade have dramatically reduced the market share of Caribbean producers, leaving them in poor economic shape and with little prospect for recovery. As a result, we expect financial difficulties in the region to mount and political strains to intensify, creating a number of concerns for the United States:

- Continued capacity shutdowns in the US aluminum industry and the retrenchment of US aluminum companies in the Caribbean are adding to the economic burdens of the region, offsetting many of the benefits of the Caribbean Basin Initiative. As a result, more calls for economic assistance from Washington will be forthcoming.
- Growing debt in the Caribbean will have a negative impact on the US financial community. The bauxite-led decline in the Jamaican economy, for example, could provide a springboard for the reelection of Michael Manley—greatly increasing the chances of a debt moratorium. More than one-fourth of Jamaican debt is owed to US banks.
- The door could open further for opportunistic meddling by antidemocratic forces such as Libya, Cuba, and the Soviet Union. Already, according to Embassy reporting, Libya has opened a mission in Suriname. In recent years, North Korea, Cuba, Bulgaria, and the USSR have all either increased aid or opened lines of credit to Guyana.
- The weak economic picture for the Caribbean could pave the way for greater reliance on the underground drug economies. The importance of Jamaica and Suriname as conduits for narcotics trafficking has grown sharply as their economies have turned downward. Narcotics operations will continue to provide lucrative profits and attractive employment opportunities for the Caribbean work force.

Opportunities for increased exports to the United States offered by the Caribbean Basin Initiative are not likely to compensate for the bauxite-led earnings slide. By 1984 annual earnings from the sale of bauxite and bauxite products for the Caribbean producers stood at only 57 percent of 1980 levels, with lost earnings over the four-year period totaling \$1.1 billion for Jamaica, \$428 million for Suriname, and \$320 million for Guyana. In Haiti and the Dominican Republic, bauxite earnings declined to zero with the cessation of mining activity in 1982.

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According to our analysis, several factors caused the collapse of the

Caribbean bauxite industry:

- Rapid aluminum demand growth in the 1950s and 1960s spurred an intensive search for new bauxite deposits, resulting in the discovery of large, rich bauxite reserves in Australia, Guinea, and Brazil.
- Domestic policies, such as the nationalization of the Guyanese aluminum industry and the imposition of high levies on bauxite exports by Jamaica in the mid-1970s, soured the multinational aluminum companies on the Caribbean as a source of bauxite.
- The increase in oil prices in the early 1970s spurred a major restructuring of sources of supply within the industry toward those countries that had both cheap energy and abundant bauxite supplies and away from the high-cost, inefficient Caribbean producers.

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In our judgment, bauxite earnings losses for the Caribbean producers will be permanent. We expect bauxite trade to continue to shift to those countries that can produce it most efficiently. Caribbean producers will get little relief from the expected growth in aluminum demand during the remainder of the decade because much of the growth will occur primarily in Europe and Japan, where Caribbean bauxite exports are least competitive. Some relief could result if prices rise, but serious overcapacity will prevent any significant gains well into the 1990s.

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Table 1
Bauxite Production*Thousand metric tons*

	1970	1975	1980	1981	1982	1983	1984	1985 ^a
Total	48,715	63,671	78,192	73,476	63,092	63,615	80,849	NA
Caribbean producers	24,191	21,456	20,991	18,957	13,743	11,747	14,595	11,860
Dominican Republic	1,086	785	511	410	152	0	0	0
Guyana	4,417	3,828	3,052	2,396	1,783	1,087	2,485	2,485
Haiti	657	522	461	539	374	0	0	0
Jamaica	12,010	11,570	12,064	11,606	8,158	7,682	8,735	6,000
Suriname	6,022	4,751	4,903	4,006	3,276	2,978	3,375	3,375
Other Western producers	24,523	42,215	57,201	54,519	49,349	51,868	66,254	NA
Australia	9,256	20,958	27,179	25,441	23,625	24,539	32,182	32,200
Brazil	510	969	4,152	4,463	4,187	5,239	6,271	7,000
Guinea	2,490	8,406	13,911	12,822	11,827	12,986	14,738	14,750

^a Estimate.

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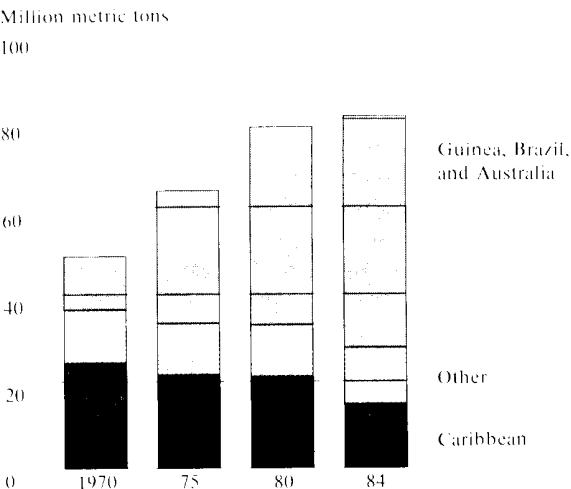
Market Shifts Batter the Caribbean

Global bauxite production and trade have shifted dramatically away from the Caribbean producers in favor of Australia, Guinea, and Brazil. According to reliable industry statistics, Caribbean bauxite production has fallen 50 percent since 1970 (see table 1):

- **Jamaican** bauxite production—after peaking at more than 15 million metric tons in 1974—has slumped drastically with output plummeting to an estimated 6 million tons last year.
- **Guyana's** production began falling in the early 1970s when the industry was nationalized and brought under the control of the Guyana Bauxite Mining Enterprise (Guymine). Since then, output has remained far below its 5-million-ton capacity, reaching only 2.5 million tons in 1984.
- **Suriname**, once the third-largest Western producer of bauxite, has seen its production fall from a peak of about 8 million tons in 1972 to only 3 million tons in 1983. Production was somewhat improved in 1984 and 1985, but well below peak levels.
- Production in the **Dominican Republic** peaked in 1974 at nearly 1.2 million tons. Output fell steadily thereafter, ceasing altogether in 1982 as ores became depleted.
- **Haitian** production has followed a similar pattern. Output fell from 657,000 tons in 1970 to 374,000 tons in 1982 when production was halted because of depleted mines.

The decline in the importance of the Caribbean in the world bauxite market is most directly attributable to competition from Australia, Guinea, and, more recently, Brazil. Together these three countries' share of non-Communist bauxite production grew from one-fourth to roughly two-thirds during the period 1970-84 (see figure 1). During the 1970s, Australia nearly

Figure 1
Bauxite Production



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tripled its bauxite output. After a small dip in production during the 1980-83 recession, Australian output reached a record 32.1 million tons in 1984—40 percent of total non-Communist production. Guinean bauxite production grew rapidly with the development of the Boke-Sangaredi deposit. By 1980 Guinea had overtaken Jamaica as the world's second-largest producer with output reaching 14 million tons. After slumping in 1981-82, production has recovered to the nearly 15-million-ton level. Brazil's rapid ascendance can be traced to the opening of the Trombetas deposit in 1979. Estimates based on industry data suggest that capacity may have reached 6 million tons at this

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site and expansion is continuing. As a result, Brazilian bauxite output grew from only 1.6 million tons in 1979 to 7 million tons in 1985. []

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The decline in trade for the Caribbean producers has been even worse than the production downturn. According to country trade statistics, Caribbean bauxite exports to the countries of the Organization for Economic Cooperation and Development (OECD) fell from 17.5 million tons to 4.6 million tons between the years 1970 and 1983; and the Caribbean share of OECD bauxite imports fell to about 20 percent from nearly two-thirds. Each exporter in the region has been hard hit. Jamaican, Guyanese, and Surinamese exports were down approximately 65, 75, and 90 percent, respectively, from their 1970 levels. []

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At the same time, Australia, Guinea, and Brazil were making huge gains at the Caribbean producers' expense. Australian bauxite exports grew by more than 20 percent to 4.3 million tons during this period. Guinea's sales to the OECD increased from just 160,000 tons in 1970 to nearly 7 million tons in 1983, and Brazil's bauxite tonnage to the OECD went from zero to more than 2 million tons. Together these three countries now account for nearly two-thirds of OECD bauxite imports. []

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Factors at Play

The depression in the Caribbean bauxite industry, in our view, has been caused by a number of factors: the discovery of new deposits, the energy crisis, and domestic policies. []

stand at an estimated 2.3 billion tons. Moreover, the ores in these countries were of higher grade and quality and as a result could be processed more cheaply than those in the Caribbean. Refiners, in their quest to reduce costs, increasingly sought this material for their plants. []

The Energy Crisis

The rapid increase in the price of fuel in the early 1970s catalyzed a series of structural adjustments within the industry that had a major negative impact on Caribbean producers. As fuel costs rose to about one-fourth the total cost of producing aluminum and transportation costs escalated, the multinationals were spurred to develop those deposits in countries that had both cheap energy and abundant supplies of bauxite. As a result, Australia and Brazil gained increased favor among aluminum producers. For example, [] over the past decade the Aluminum Company of America (ALCOA) has focused all of its investment on new smelters and refineries in Brazil and Australia, where energy costs are as much as 50 percent lower than in the United States. []

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The movement to locate alumina refining capacity near energy-rich bauxite sources decreased the need for exported Caribbean bauxite. Indeed, during the period 1970-83, bauxite imports by the OECD countries dropped by 21 percent while alumina imports more than doubled from 5.1 million tons to 12.6 million tons. This trend was accelerated by increasing transportation costs. Because alumina has roughly twice as much aluminum content as bauxite, it is more cost effective to ship. []

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New Deposits

The boom period of 1950-70, in which aluminum demand in the OECD countries grew from only 1.5 million tons to nearly 8 million tons, spurred an intensive search for new bauxite deposits. According to the Bureau of Mines' estimates, bauxite reserves in Australia have increased from 2 billion tons to nearly 5 billion tons over the last 20 years. Guinea's reserves are now placed at nearly 6 billion tons, an increase of 40 times since 1965. Bauxite reserves in Brazil, believed to be nearly nonexistent 20 years ago, today

Caribbean producers were further disadvantaged by the fact that their bauxite processing operations, already established, were not energy efficient. This made alumina production there even more expensive. In Jamaica, for instance, it takes roughly 3 barrels of oil to produce 1 ton of alumina. The standard consumption in a modern, fuel-efficient plant is only about 2 barrels per ton of alumina. []

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Domestic Policies

Caribbean bauxite problems were heightened by detrimental national economic policies. Direct governmental takeovers in the bauxite industry and the imposition of stiff bauxite export levies combined to sour the aluminum-producing multinationals on this region. In 1971, Guyana took control of bauxite mining and processing operations owned by the Aluminum Company of Canada (ALCAN). Four years later, nationalization of the industry was completed with the takeover of the Reynolds Metal Company's facilities. In Jamaica during the mid-1970s, properties belonging to aluminum companies that were not being used in the production or transportation of bauxite or alumina were nationalized. Kingston also began to acquire equity interest in bauxite and alumina operations. As a result, the Jamaican Government gained a 51 percent controlling interest in the bauxite operations of both Kaiser Aluminum and Reynolds, and minority shares in ALCOA and ALCAN alumina facilities. In June 1974 the Manley government jolted the multinational aluminum companies with a sixfold increase in its bauxite export levy. Following the Jamaican move, Suriname, Guyana, Haiti, Guinea, and Dominican Republic matched this increase. [redacted]

While there were few closures of Caribbean facilities in the early years of the higher bauxite levies because producers were technically captive to deposit-specific ore types,¹ closures in the Caribbean became more widespread with poorer market conditions in the 1980s. Jamaica, because of its high cost of production, has been especially hard hit:

- Reynolds closed all mining operations in 1984, citing the availability of cheaper ores elsewhere. Its decision was probably prompted by the imminent start-up of the Worsely bauxite and alumina complex in Australia in which it has a 40 percent interest.
- In February 1985 ALCOA shut down all operations, citing an aluminum glut and high costs. [redacted] the ALCOA plant

¹ Alumina refining operations are tuned to particular bauxite ores. Switching bauxite sources entails considerable costs because the processing technology must be revamped to accommodate the new supplies. [redacted]

was producing alumina at a cost of about \$230 a ton against a world market price of only \$110 a ton. The plant was subsequently reopened under a five-year-lease arrangement with the Jamaican Government, whereby ALCOA operates the plant for the government.

- More recently, the financially troubled Alpart alumina refinery – the largest US investment in Jamaica – closed down operations because of mounting losses. Alpart is jointly owned by Atlantic Richfield, Kaiser, and Reynolds. Kaiser and Reynolds have alternative Australian sources of supply that are producing under capacity and at considerably lower

[redacted] 25X1

- According to Embassy reporting, ALCAN has indicated that it will soon close one of its two alumina plants unless substantial tax relief is provided.

Similar trends prevail elsewhere in the Caribbean. For example, in Suriname, ALCOA has reportedly asked the government for financial concessions to keep operations going. [redacted] 25X1

Economic Impact—Lower Export Earnings, Increasing Debt

Loss of market share and weak prices for bauxite and alumina have led to mounting economic difficulties for Caribbean producers. Since 1980 annual bauxite and derivative export earnings have dropped about 50 percent in Jamaica, more than one-third in Guyana and Suriname, and disappeared entirely in Haiti and Dominican Republic (see table 2). Although the region's importance as a world supplier of these materials has diminished greatly, bauxite and bauxite products remain the cornerstone of the Caribbean producers' economies. Guyana, Jamaica, and Suriname, for example, depend on bauxite, alumina, and aluminum sales for roughly 45, 65, and 80 percent of their total export earnings, respectively. With few

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The US Connection: A Bane for Caribbean Producers

The plight of the Caribbean bauxite industries has been made worse because of strong ties to the US market—ties that were a decided advantage in the 1950s and 1960s. The ongoing depression in the US aluminum industry has hit particularly hard, leading to closure of plants that relied on Caribbean feed-stocks. In 1982 Ormet permanently closed its Burnside, Louisiana, refinery. This was followed by the shutdown of the larger Kaiser plant at Baton Rouge. In 1983 Reynolds closed and put up for sale its mining and alumina operations at Hurricane Creek, Arkansas. More recently, Reynold's Corpus Christi alumina refinery switched from Jamaican material to Brazilian and Guinean ores. Altogether some 4 million tons of US refining capacity that relied on Caribbean bauxite has been closed or switched to other bauxite sources since 1982. []

alternatives for earning foreign exchange, dependence on these exports has remained high even though earnings have fallen precipitously. []

The export earnings decline has contributed substantially to growing debt problems in the region (see figure 2 and table 3) and is of increasing concern:

- In Jamaica, debt totaled \$3 billion in 1984, up roughly \$1.2 billion over 1980. Lost bauxite and alumina earnings alone have totaled \$1.1 billion since 1980.
- Since 1980 Guyana's debt grew more than 70 percent, amounting to more than \$1 billion in 1984. Lost bauxite and alumina export earnings total \$320 million. Although the balance of trade has remained positive through sizable reductions in imports, the debt-service ratio remains high—accounting for two-fifths of every export dollar earned.
- Although the debt situation in Suriname has improved slightly, the international financial community is reluctant to lend to Paramaribo. Contributing to this stance has been a loss of \$428 million in

potential bauxite, alumina, and aluminum earnings between 1980 and 1984.

In Dominican Republic and Haiti, where external debt has skyrocketed to roughly \$2.9 billion and \$600 million, respectively, bauxite earnings declines have played only a small role. []

Political Impact—Increasing Discontent and Drug Trafficking

Deepening economic problems—largely the result of the collapse in bauxite earnings—are spilling over into the political arena. Measures taken to deal with the financial troubles—such as wage freezes, higher taxes, and currency devaluations—have led to growing economic hardships for the populace and mounting discontent, especially in Jamaica. The January 1985 round of gasoline price hikes resulted in widespread public demonstrations. The protest sent a clear signal to Prime Minister Seaga that the patience of the general public with a seemingly endless series of economic hardships was near its limit. In June strikes by public-sector workers protesting International Monetary Fund (IMF) recommended adjustments—including 2,700 layoffs—paralyzed the country for several days. Job losses in the bauxite and public sectors totaled at least 4,200 in 1985. Prolonged economic troubles will make it increasingly hard for Seaga to carry out IMF stipulations to raise prices on key consumer imports or to allow the Jamaican dollar to further depreciate without creating more social unrest. With real income per capita lower than when he took office in 1980, Seaga's popular support has eroded substantially, boosting the electoral chances of former Prime Minister Michael Manley and his leftist People's National Party. []

The situation is similar in Suriname and Guyana where the bauxite and aluminum slump has led the economic decline. Both countries are experiencing shortages of basic goods and commodities as a result of government imposed austerity measures, according to Embassy reporting. The situation in Suriname

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Table 2
Export Earnings From Bauxite,
Alumina, and Aluminum

Million US \$


	1980	1981	1982	1983	1984	Lost Export Earnings ^a
Dominican Republic						
Bauxite	18.5	15.7	5.3	0	0	53.0
Guyana	188.0	142.4	94.5	75.2	119.7	320.2
Bauxite	144.3	111.8	82.5	72.9	119.7	
Alumina	43.7	30.6	12.0	2.3	0	
Haiti						
Bauxite	12.6	16.3	13.5	0	0	20.6
Jamaica	735.7	759.7	484.1	265.7	378.2	1,055.1
Bauxite	198.4	171.9	129.5	67.0	119.9	
Alumina	537.3	587.8	354.6	198.7	258.3	
Suriname	422.8	377.5	329.7	275.0	280.8	428.2
Bauxite	73.9	63.0	29.4	24.9	39.9	
Alumina	284.8	265.5	230.9	215.6	198.6	
Aluminum	64.1	49.0	69.4	34.5	42.3	

^a Lost earnings assumes that earnings during the period 1981-84 remained at 1980 levels and is calculated as the sum of the annual difference between actual and assumed earnings for these four years.

Source: IMF *International Financial Statistics*, February 1985.



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could worsen significantly if ALCOA—the dominant company in this sector—decides to cut back operations there as it did in Jamaica in 1984 and in Haiti earlier in this decade. 

The hardship brought on by the bauxite depression has created openings and opportunities for leftist and anti-US regimes and has increased the risks of heightened drug trafficking as the underground economy becomes a more viable option:

- According to Embassy reporting in 1985, Libya opened a mission in Suriname. At the same time, Suriname's role as a major drug transit center has grown sharply as its economic prospects have turned downward.

- Guyana remains in economic shambles, and opportunities for meddling by leftist regimes appear rife. North Korea, Cuba, Bulgaria, and the USSR have all either increased aid or opened lines of credit to Guyana in recent years.

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- Narcotics production and trafficking continues to pose a major threat to security in the region. According to a State Department assessment, Jamaica continues to be a major supplier of marijuana to the US market. In addition, South American drug traffickers increasingly favor Jamaica and Suriname as transit points for US-bound narcotics.

The Current Situation

Comprehensive up-to-date information is not available, but fragmentary data suggest that 1985 was no better for Caribbean bauxite producers. According to the Latin America Commodities Report, Jamaican volume of trade deteriorated badly in 1985. Bauxite exports were 2.3 million tons in 1985, down 50 percent in comparison with 1984, and alumina exports were 7 percent lower. Incomplete International Monetary Fund data indicate that Caribbean earnings from bauxite and derivative products exports also performed poorly:

- *Jamaican earnings from the sale of bauxite and alumina amounted to just \$270 million last year, down a whopping 30 percent from the previous year's total and almost a half billion dollars less than 1980 earnings.*
- *Suriname's bauxite, alumina, and aluminum earnings were \$230 million in 1985, off almost a fifth from the previous year's level.*

Only in Guyana did 1985 bauxite earnings remain on a par with those of 1984. We estimate that bauxite exports in 1985 may have been a third higher than in 1984; however, since most of this increase was achieved through barter with the USSR, earnings did not reflect the added business.

We judge that, despite steady US pressure, continued economic distress will further weaken Seaga's willingness and ability to pursue drug producers and traffickers.

Looking Ahead

We believe that Caribbean producers will get little relief from aluminum demand growth during the remainder of the decade. [redacted] non-Communist aluminum consumption will reach 14.7 million tons in 1989, up from 12.3 million in 1984—a 3.6 percent average

annual increase. This will not translate into greatly increased Caribbean bauxite exports, however. Non-Communist aluminum demand growth will occur primarily in Europe and Japan where Caribbean bauxite exports are least competitive, and continued curtailment of US aluminum production will hurt Caribbean producers. Once self-sufficient, the United States now relies on imports of aluminum for increasing shares of domestic needs. This will mean less demand for Caribbean inputs—bauxite and alumina. Elsewhere, Canada's aluminum output will continue to expand but with its bauxite needs being filled increasingly from Guinea and Brazil. [redacted]

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The Caribbean position will be further disadvantaged by capacity additions elsewhere:

- In **Brazil**, expansion of the Trombetas bauxite deposit is continuing. Last year 3.5 million tons of new capacity was added at this site. We estimate Trombetas's present capacity at 7 million tons.

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[redacted] We estimate that by the end of this decade overall bauxite production in Brazil will amount to roughly 14 million tons.

- [redacted] **Venezuela's** first venture into bauxite production—the Los Pijiguaos bauxite mine—is expected to come on stream in the second half of 1986. This project will initially add 1 million tons a year to world capacity. The Inter-American Development Bank estimates that the production goal of 3 million tons will be achieved in 1989.

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- In **India** the 2.4-million-ton bauxite mine at Panchpatmali will come on stream this year, bringing total capacity to 3.6 million tons. [redacted]

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[redacted] when the Grandhamardhan deposit reaches capacity in 1987 another 600,000 tons of bauxite could be produced each year.

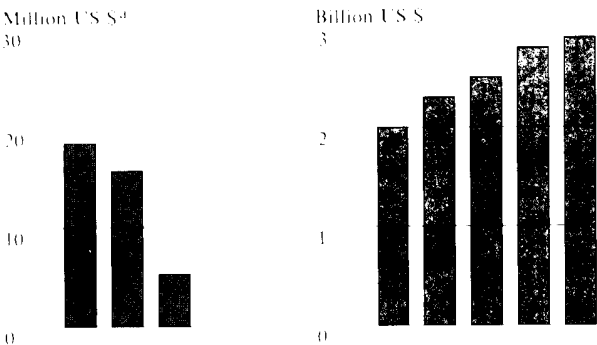
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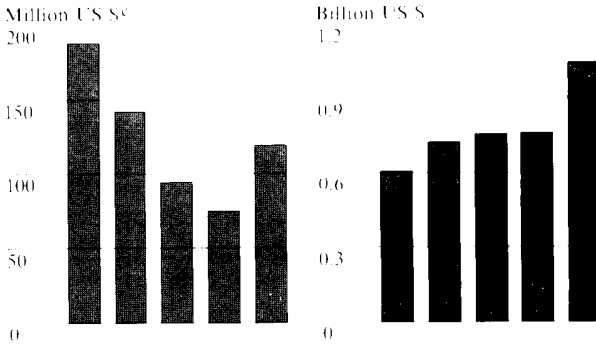
Figure 2
Bauxite Related Export Earnings and
Aggregate Debt

Note scale change

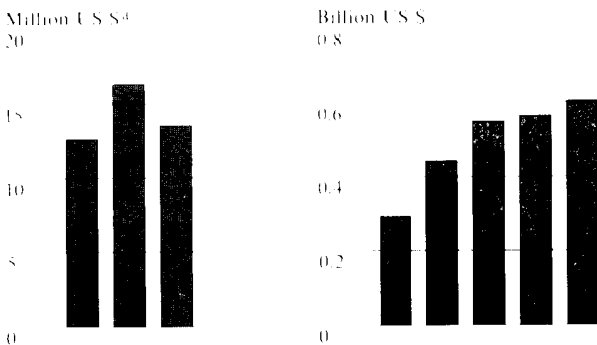
Dominican Republic



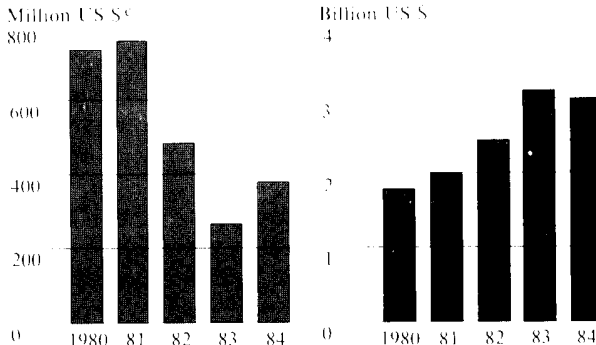
Guyana



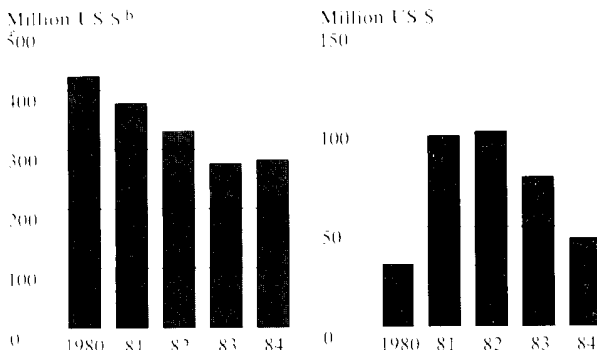
Haiti



Jamaica



Suriname



■ Export earnings
■ Aggregate debt

^ From bauxite
^ From bauxite, alumina, and aluminum
^ From bauxite, and alumina

Table 3
Aggregate Debt

Million US \$

	1980	1981	1982	1983	1984	Increase in Debt Since 1980	Lost Export ^a Earnings 1981-84 (as a percentage of increase in debt)
Dominican Republic	2,019	2,296	2,459	2,784	2,876	+ 857	6
Guyana	607	725	757	763	1,047	+ 440	73
Haiti	291	441	548	563	602	+ 311	7
Jamaica	1,783	1,982	2,439	3,118	2,993	+ 1,210	87
Suriname	31	96	98	75	44	+ 13	3,300

^a Lost earnings for bauxite and/or alumina and/or aluminum.

In addition, Australia—which is presently conducting a feasibility study on the development of a fourth bauxite mine—has the capability to expand the three existing mining operations when required. []

These additions to worldwide capacity ensure that the current oversupply situation will continue. We estimate that in 1984 bauxite production exceeded demand by about 30 million tons, or roughly 60 percent. With capacity additions of at least 13 million tons projected by 1990 and increased demand of only about 10 million tons, the buyer's market will not abate. []

As a result, significant recovery in the Caribbean bauxite sector appears extremely unlikely. The earnings losses already sustained have been caused primarily by structural change within the industry, and lost market shares probably should be considered more or less permanent. At current production levels, bauxite prices would have to more than triple for Caribbean producers to enjoy even the same level of earnings they did just five years ago (see figure 3). Falling oil prices would help restore some of the region's competitiveness in the bauxite market, but relatively old and inefficient plants will offset most of this impact. []

Options available to Caribbean producers within the bauxite and aluminum sector appear extremely limited. Lacking cheap energy resources, Caribbean producers would have difficulty becoming competitive even if they were to expand into alumina refining on a large scale. Caribbean producers will also have difficulty finding other nearby buyers of bauxite to replace the shrinking US market. Brazil, already self-sufficient in this material, will instead become a competing exporter, while Venezuela is well on its way toward satisfying its own bauxite needs. []

Actions taken by Jamaica and Suriname so far focus mainly on maintaining markets and retaining an industry presence—measures that fail to come to grips with the basic ills of the industry in these countries, such as inadequate investment, declining ore grades, high energy costs, and inefficient plants. Jamaica has lobbied successfully for US strategic stockpile purchases of bauxite on both a barter and a cash basis and has negotiated a long-term contract to sell bauxite to the USSR. Jamaica is seeking to expand into aluminum smelting so that it can have an assured market for its alumina. []

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Soviet Activity in the Caribbean Bauxite Producing Nations

Direct Soviet activity and influence in Guyana, Jamaica, and Suriname have been fairly limited so far. The USSR's largest aid effort has been its scholarship program. More than 60 students from the three countries were studying in the USSR on all-expense scholarships in 1984. Moscow has been largely unsuccessful in promoting its credit programs in the Caribbean, which are designed mainly to push Soviet exports.

[redacted] a \$10 million export credit to Jamaica was for the purchase of Soviet automobiles, rather than for development. Moscow also has offered to aid Guyana in bauxite and gold mining, but no agreement has been signed. There are no Soviet technicians in the three countries.

Soviet influence through Cuban and Bulgarian activities is considerably more important. Cuba has been a major donor to the bauxite producers in the Caribbean, providing about \$5 million in technical assistance (mostly from small rural development projects) over the past five years. More than 400 students from the three countries are studying in Cuba. In 1984 Bulgaria extended Guyana the largest Communist commitment to the Caribbean/Latin America with \$155 million for hydropower, mining, forestry, and fishing projects.

[redacted] recently failed negotiations with Colombia -- which would have led to the construction of a 140,000-ton smelter there using cheap Colombian power and abundant Jamaican raw material-- resulted in Jamaica's decision to examine the possibility of buying an aluminum smelter in the United States. In addition, Jamaica has recently begun to more aggressively market its bauxite and alumina in Western Europe. Suriname has begun supplying Venezuela's Interalumina Plant with bauxite. However, this

**Figure 3
Aluminum Prices**



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market will probably dry up in the next few years as Venezuela becomes self-sufficient in bauxite production. ([redacted])

Only in Guyana have measures been taken to revitalize the industry in addition to maintaining markets. In March 1985 Guyana signed a five-year agreement with Reynolds International for managerial and technical assistance in the bauxite industry, which is currently operating at half capacity. Guyana continues to seek funds for the purchase of new mining equipment and spare parts. On the marketing front, Guyana is seeking countertrade arrangements in an effort to circumvent its foreign exchange deficiencies. According to press reports, Guyana recently signed a seven-year agreement to supply bauxite to the USSR. Guyana is to be paid for the ore with a range of Soviet

goods, including agricultural machinery, pharmaceuticals, and electronic equipment. Some aircraft, including light planes and helicopters, are also likely to be supplied. Such countertrade arrangements, whether offered by the East or the West, will probably be viewed favorably by the financially troubled Caribbean bauxite producers. []

Implications for the United States

Continuing difficulties for the Caribbean bauxite producers will cause a policy dilemma for the United States because of problems with its own aluminum industry. The preponderance of old plants and high energy and labor costs assure that the United States remains a high-cost aluminum producer. Since projected output and consumption trends give us no reason to anticipate a dramatic increase in aluminum prices over the next few years, the United States will face increased pressures for further retrenchment within its industry. If idled capacity in the United States is permanently shelved and if plant closures continue, prospects for bauxite imports from the Caribbean will worsen. []

Under these circumstances, more calls for aid from Washington are certain to be forthcoming. Kingston is likely to press for greater assistance, whether in the form of additional bauxite purchases for the US strategic stockpile, barter proposals, or direct economic aid. Indeed, the Caribbean bauxite producers may perceive that they are being abandoned to a large extent by US companies at a time when investment in the region is being encouraged for other products under the Caribbean Basin Initiative (CBI).² []

² The CBI itself will do little to help the Caribbean bauxite industry. There are no investment tax credits to stimulate US companies to invest in the bauxite industry, and bauxite imports already had duty-free access before CBI. Suriname and Guyana have yet to apply for CBI eligibility because of political reasons. []

Mounting debt in this region could also cause problems for the United States. Jamaica, for example, owes more than one-fourth of its debt to US banks. The chances of Jamaica declaring a moratorium on its external debt would, no doubt, increase if Manley were reelected prime minister. With no help from the bauxite sector, the Jamaican economy is likely to stumble badly and further jeopardize Seaga's position. []

The United States will thus face some difficult choices. Assistance that provides the most visible and immediate relief could well prove counterproductive if it fosters continued overdependence on bauxite and alumina. On the other hand, development assistance and private investment in infrastructure, agriculture, and light manufacturing—structural adjustments that Washington and its allies agree are necessary for the long-term economic viability of the region—will require time for fruition. Buying that time in the face of mounting political assaults from the left and increasing economic and social strains from drug trafficking will require deft political tactics as well as luck. []

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